LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 8002 **DATE PREPARED:** Mar 28, 2001
BILL NUMBER: HB 1001 **BILL AMENDED:** Mar 27, 2001

SUBJECT: State Budget.

FISCAL ANALYST: Kathy Norris; Alan Gossard
PHONE NUMBER: 234-1360; 233-3546

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
X **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill appropriates state money for the biennium beginning July 1, 2001, and ending June 30, 2003. It also authorizes certain capital projects.

Tobacco Settlement Fund: This bill provides that the maximum amount of expenditures, transfers, or distributions that may be made from the Indiana Tobacco Master Settlement Agreement Fund during a state fiscal year is equal to: (1) 60% of the amount of money received or to be received by the state under the Master Settlement Agreement during that state fiscal year (after subtracting the amount appropriated to the Children's Health Insurance Program (CHIP) from funds accruing to the state from the tobacco settlement); plus (2) any amounts that were available for expenditure, transfer, or distribution during preceding state fiscal years but that were not expended, transferred, or distributed. The bill establishes certain existing trust funds as accounts within the Indiana Tobacco Master Settlement Agreement Fund. The bill also provides that any unspent balances in the 2000 appropriation from the Indiana Tobacco Master Settlement Agreement Fund for capital costs for community mental health centers do not revert until 2004.

Kindergarten Enrollment Date: This bill provides that a child must be at least five years of age on the following dates to officially enroll for the particular school year in a kindergarten program offered by a school corporation: (1) July 1 of the 2001-2002 school year. (2) August 1 of the 2002-2003 school year. (3) September 1 of the 2003-2004 school year or any subsequent school year. (Current law requires that a child must be at least five years of age on June 1 to officially enroll in a kindergarten program.) The bill also allows the governing body of a school corporation to adopt a procedure affording a parent the right to appeal to the school superintendent for kindergarten enrollment of a child who is not at least five years of age on the statutory date (instead of requiring a school corporation to adopt the procedure).

School Funding Provisions: This bill also increases the staff cost amount used in the determination of Primetime distributions. It deletes the proposed maximum annual Primetime funding increase of 2.5%. (Current law provides that a school corporation's Primetime funding may increase no more than 13% over the previous year's funding.)

This bill also amends the definition of "previous year revenue" for purposes of the school funding formula. The bill changes the method in which a school corporation's "target revenue per ADM" is calculated. It also includes a new index based on a school corporation's at-risk index, the percentage of students eligible for free or reduced price lunches, and the percentage of the school corporation's students who are classified as having limited proficiency in English. The bill replaces the 2% minimum guarantee with a 1% guarantee on revenue per ADM. It also amends the provision determining a school corporation's "target general fund property tax rate". It also deletes the provision that entitles a school corporation to an enrollment adjustment grant if the school corporation's ADM for the current year is at least 5% more than the school corporation's previous year ADM.

This bill changes the dollar amounts used in determining the academic honors diploma award. It also removes a provision that allows a school corporation to give the money received by the corporation as an academic honors diploma award to eligible pupils in the corporation who have successfully completed an academic honors diploma program. It also includes a transitional provision that allows a school corporation to make awards that have been promised to students currently in high school. The bill specifies the amount of the per-pupil Special Education Grants. It also changes the manner in which the At-Risk Grant is calculated.

For purposes of the vocational education formula that becomes effective in 2002, the bill requires the Department of Workforce Development to provide the Department of Education with a report listing whether the Indiana average wage level for each generally recognized labor category is a high wage, a moderate wage, or a less than moderate wage. This wage report (along with the reports categorizing vocational education programs by employment demand) is to be used in determining the amount of the Vocational Education Grants. The bill eliminates the vocational education funding component for pupils receiving a certificate of achievement. It provides vocational education funding of $135 per pupil for pupils participating in a vocational education program in which pupils from multiple schools are served at a common location. It also moves the funding of family and consumer science programs from the Vocational Education Grant calculation to the regular program calculation. It also changes the expiration date of the law governing Vocational Education Grants from January 1, 2002, to January 1, 2004. A guaranteed distribution amount is provided in 2002 and 2003.

Bonding Authorization: This bill also authorizes the trustees of Purdue University to issue bonds for the purpose of constructing, remodeling, renovating, furnishing, and equipping the Recreation Gymnasium project at the West Lafayette campus. The project is not eligible for fee replacement.

Property Tax Replacement Fund: This bill appropriates money from the Build Indiana Fund to the Property Tax Replacement Fund. It makes certain items ineligible for the Personal Property Tax Reduction Credit, and specifies eligibility for the credit in each county.

Medicaid Provisions: The bill eliminates from the Drug Utilization Review Board one member who: (1) is employed by a health maintenance organization that has a pharmacy benefit; and (2) has expertise in formulary development and pharmacy benefit administration. The bill gives responsibility for placing an outpatient drug on prior approval to the Office of Medicaid Policy and Planning (OMPP), instead of the Board. The bill simplifies the process for placing an outpatient drug on prior approval. The bill also requires OMPP, instead of the Board, to include in the Medicaid state plan the creation and implementation of a retrospective and prospective DUR program for Medicaid outpatient drugs. The bill provides that a formulary used by a Medicaid managed care organization is not subject to the Medicaid DUR program, but is subject to the DUR program for health maintenance organizations.

Homestead Credit: The bill also provides that the homestead credit percentage shall be 10% in 2002 and 2003.

Earned Income Tax Credit: This bill also extends the earned income tax credit through 2003.

Other Provisions: The bill provides that the Indiana War Memorials Commission may hire employees only with the approval of the Budget Agency.

The bill also provides that the Budget Director or the Budget Director's designee is a member of the Recreational Development Commission.

The bill establishes the State Museum Development Fund for the purpose of promoting interest in and use of the Indiana State Museum. It provides that the fund consists of revenue generated by exhibit fees, concessions, donations, grants, and other miscellaneous revenue.

The bill transfers $10,000,000 from the Underground Petroleum Storage Tank Excess Liability Trust Fund to the Environmental Remediation Revolving Loan Fund as follows: (1) $5,000,000 on July 1, 2001; and (2) $5,000,000 on July 1, 2002.

Effective Date: July 1, 2000 (retroactive); January 1, 2001 (retroactive); Upon passage; July 1, 2001; December 31, 2001; January 1, 2002; July 1, 2002.

Explanation of State Expenditures: (Revised) This bill establishes the state budget appropriations for FY 2002 and FY 2003. Total General Fund and Property Tax Replacement Fund appropriations are $10,278.6 M for FY 2002 (a 3.1% increase over FY 2001) and $10,533.5 M for FY 2003 (a 2.5% increase over FY 2002).

Of this amount, total operating appropriations are $10,057.5 M for FY 2002 (a 3.6% increase over FY 2001) and $10,312.4 M for FY 2003 (a 2.5% increase over FY 2002). Appropriations for capital projects represent $442.25 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

General Fund and Property Tax Replacement Fund: FY 2002-FY 2003.			
Functional Category	**FY 2002**	**FY 2003**	**% Change**
General Government	312,202,057	315,575,063	1.1%
Corrections	564,404,304	559,529,425	-0.9%
Other Public Safety	111,676,030	111,707,041	0.0%
Conservation and Environment	89,065,801	90,063,796	1.1%
Economic Development	71,310,742	71,689,117	0.5%
Transportation	1,076,683	1,105,605	2.7%
Mental Health	239,391,027	240,313,650	0.4%
Public Health	115,242,304	112,000,324	-2.8%
Medicaid	1,203,458,577	1,286,919,245	6.9%
Family and Children	237,963,557	230,397,419	-3.2%
Social Services and Veterans	240,448,596	236,743,206	-1.5%
Higher Education	1,390,207,468	1,413,423,719	1.7%
Education Administration	56,484,699	55,827,999	-1.2%
Tuition Support - Gen. Fund	1,947,162,850	1,995,987,850	2.5%
Tuition Support - PTR Funds	1,460,640,150	1,509,465,150	3.3%
Social Security - Teachers	2,403,792	2,403,792	0.0%
Teachers Retirement	435,400,000	472,000,000	8.4%
Other Local Schools	288,227,890	289,133,275	0.3%
Other Education	12,201,723	12,556,178	2.9%
PTR and Homestead Credits	1,251,662,876	1,278,017,761	2.1%
Distributions - Gen. Fund	26,850,488	27,521,749	2.5%
Subtotal - Operating	10,057,481,614	10,312,381,364	2.5%
Higher Education Construction	44,554,908	44,554,908	
Other Construction	176,573,945	176,573,945	
Subtotal - Capital Projects	221,128,853	221,128,853	
Grand Total	10,278,610,467	10,533,510,217	2.5%

* Appropriations "for the biennium" are apportioned 50% for each fiscal year.
** The appropriations in this table represent only those appropriations provided in HB 1001.

Appropriations from dedicated and federal funds for the biennium and retroactive appropriations for FY 2001 are presented in the following table.

Dedicated, Federal, and Retroactive Appropriations: FY 2002-FY 2003.			
Functional Category	**FY 2002**	**FY 2003**	**% Change**
BIF & Lottery/Gaming Surplus	340,188,931	340,188,931	
Other Dedicated - Operating	1,054,845,240	1,086,144,157	3.0%
Other Dedicated - Construction	21,839,401	21,839,401	0.0%
Tobacco Settlement	83,750,000	103,050,000	23.0%
Federal Funds	656,282,515	667,982,515	1.8%
Retroactive Appropriations *	53,600,000		
Total Dedicated	2,210,506,087	2,219,205,004	
* Retroactive appropriations are for FY 2001.			

Tobacco Settlement Provisions: This bill provides for an increase in the amount of Indiana Tobacco Master Settlement Fund revenue that may be made available for expenditure, transfer, or distribution each year. The bill provides for an increase in two ways: first, the appropriation for the Children's Health Insurance Program is removed before the calculation of the revenue available for expenditure; and second, the provision allows amounts that were available for expenditure, transfer, or distribution in a prior year, but not expended, to be available in the next year. Using existing forecast Tobacco revenue estimates, this would allow an additional $41 M in Tobacco Funds to be available for appropriation and subsequent expenditure. (The current statute requires these funds to be transferred to the trust portion of the Master Settlement Fund.) These provisions increase the amounts that may be expended; conversely, they decrease the level of funds accumulating in the Master Settlement Fund and reduce the interest earnings potential of the trust correspondingly.

The bill also changes certain existing trust funds as accounts within the Indiana Tobacco Master Settlement Agreement Fund. These revisions are made for administrative purposes and have no fiscal impact.

The provisions affecting the Indiana Tobacco Master Settlement Agreement Fund are summarized in the table below.

Code Provisions Affecting Tobacco $	**FY 2001**	**FY 2002**	**FY 2003**
Increase in $ Available for Expenditure			
Remove CHIP appropriation before applying the 60%)		12,680,000	14,800,000
Prior Year Available & Unexpended		41,048,518	
Decrease in $ Designated to Trust Fund		(12,680,000)	(14,800,000)
Prior Year Available & Unexpended	(41,048,518)		

School Funding Provisions: The tuition support formula provides for a 3% increase in funding to local schools for CY 2002 and CY 2003. The following table shows the approximate distribution under the formula.

	CY 2001	CY 2002	% Inc.	CY 2003	% Inc.
State	3,363,300,000	3,452,300,000	2.6%	3,558,600,000	3.1%
Property Taxes	1,659,500,000	1,709,800,000	3.0%	1,760,900,000	3.0%
Prior Year Excise	198,800,000	217,700,000	9.5%	223,600,000	2.7%
Total	5,221,600,000	5,379,800,000	3.0%	5,543,100,000	3.0%

Bonding Authorization: The bill authorizes Purdue University to issue bonds up to $5 M to construct, remodel, renovate, furnish, and equip the Recreation Gymnasium project. The bonding authority was originally approved in the 1999 budget bill. The project is not eligible for fee replacement.

Personal Property: Under current law, the state pays a property tax credit equal to the net tax liability on the first $12,500 of assessed value of a taxpayer's tangible personal property. This credit is commonly referred to as the Personal Property Tax Replacement Credit (PPTRC). Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the current credit for $12,500 AV will be based on $37,500 AV instead. <u>This scheduled change does not affect final tax bills or state costs in any way</u>. For clarity, references to assessed valuation will be in 2000 terms.

The current credit is a property tax credit which reduces the net property tax payment of personal property tax payers. Each taxpayer is entitled to one credit for up to $12,500 AV on *each* tax statement. A taxpayer receives one tax statement for each taxing district in which the taxpayer owns property and there are multiple taxing districts within each county. In CY 2000, the first year for which the credit was available, the state paid $181.4 M in credits.

This bill would limit a taxpayer to *one credit* for up to $12,500 AV *per county*. The taxpayer's assessed value within multiple districts in the county could be combined to reach the $12,500 AV per county limit. Since this bill allows only one countywide credit per taxpayer, it would reduce the credit amount to which a taxpayer is entitled if the taxpayer is currently receiving PPTRC on a total of more than $12,500 AV in multiple taxing districts within a county. The bill would also eliminate PPTRC payments based on the assessed value of mobile homes, mobile houses, airplanes, and boats and trailers that are not subject to the Excise Tax. Both PPTRC provisions would reduce the amount that the state pays for the credit. This applies to taxes paid after December 31, 2001.

This analysis assumes that the next reassessment of real property will be effective with property tax paid in CY 2003. The real property reassessment will affect property tax rates which are applied to both real and personal property values. The following table lists the estimated change in the state's cost for the credit.

Estimated Cost of Personal Property Tax Replacement Credit (In Millions)			
	Current Cost	**Cost under Proposal**	**Expense Reduction**
FY 2002	$190.4	$166.1	$24.3
FY 2003	162.1	121.0	41.1
FY 2004	133.1	99.4	33.7
FY 2005	135.8	101.4	34.4

Homestead Credit: The state currently provides a Homestead Credit against the property tax due on a person's principal residence. The credit is currently equal to 10% of the property tax liability and is scheduled to be reduced to 4% for CY 2002 and years thereafter. The bill would increase the current Homestead Credit from 4% to 10% for CY 2002 and CY 2003.

At the 4% credit rate under current law, the total cost of the credit is estimated at $82.8 M for CY 2002 and $104.7 M in CY 2003. An increase to 10% would bring the total cost to about $207.1 M in CY 2002 and $261.8 M in CY 2003. The Homestead Credit percentage increase to 10% would result in an increased expense of about $124.3 M in CY 2002 and $157.1 M in CY 2003. The fiscal year cost of this provision is estimated at $62.1 M in FY 2002, $140.7 M in FY 2003, and $78.5 M in FY 2004.

Homestead credits are paid from the Property Tax Replacement Fund (PTRF) which is annually supplemented by the state General Fund. Any additional PTRF expenditures would ultimately come from the General Fund.

The bill also appropriates $220 M in FY 2002 and $123 M in FY 2003 from the Build Indiana Fund to the Property Tax Replacement Fund.

Other Provisions: This bill provides that the Budget Director or designee is a member of the Recreational Redevelopment Commission. This provision may increase expenses of the Commission by a minimal amount. The new member would be entitled to mileage and travel expenses which are expected to be less than $300. Expenses are paid from the budget of the Department of Natural Resources (DNR).

State Museum Development Fund: The State Museum Development Fund will be administered by the DNR. The DNR will be able to administer the fund given current resources. The balance of the fund is continuously appropriated and may be used at the request of the DNR with the approval of the State Budget Agency and after review by the Budget Committee.

Environmental Remediation Revolving Loan Fund: The bill also transfers $10 M from the Underground Petroleum Storage Tank Excess Liability Trust Fund (ELTF) to the Environmental Remediation Revolving Loan Fund as follows: (1) $5,000,000 on July 1, 2001; and (2) $5,000,000 on July 1, 2002. According to the Budget Agency and the Auditor's Office, the fund had a cash balance of $8,851,723 as of 6/30/00 with $69,999,660 in investments. According to IDEM, the ELTF is expected to bring in $26,000,000 annually in FY 01, FY02 , and FY03. Expenses are estimated to be $21million annually in FY 01, FY 02, and again in FY 03. Obligations as of 6/30/00 are $1.9 million. There would be sufficient funds in the ELTF, if investments are included, to cover the transfers.

Explanation of State Revenues: (Revised) *State Museum Development Fund:* The State Museum Development Fund consists of revenue generated by exhibit fees, concessions, donations, grants, and other miscellaneous revenue. The DNR estimates that these sources of revenue could generate $200,000 annually. Money in the fund at the end of the state fiscal year does not revert.

Earned Income Tax Credit: This bill extends the earned income tax credit through 2003. Under current law, the credit will expire December 31, 2001. *The estimated revenue loss from this credit is approximately $17.4 M annually.* The Earned Income Tax Credit is available to individuals who have the following: (1) at least one qualifying child; (2) income from all sources of not more than $12,000; and (3) at least 80% of total income from earned income. The amount of this refundable credit is equal to $12,000 minus the taxpayer's total Indiana income.

The DOR reported that preliminary estimates for the 1999 tax year showed approximately $16 M in Earned Income Credits claimed, with $12.7 M being refundable.

This extension would affect revenue collections in FY 2003 and FY 2004 as this proposal is effective January 1, 2002, through December 31, 2003. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures: (Revised) *Environmental Remediation Revolving Loan Fund:* Additional funding may be available for local units to receive from the Environmental Remediation Revolving Loan Fund.

Explanation of Local Revenues: See Explanation of State Expenditures, above.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Sarah Carney, Department of Commerce (317) 232-8944; Jay McQueen, Department of Administration, (317) 232-7636; Mickey James, Assistant Director, Office of Budget and Administration, DNR, (317) 232-4020; State Board of Tax Commissioners, Property Tax Analysis; Property tax return data; Local Government Database; John Parsons, Northern Indiana Commuter Transportation District; Auditor of State's Office; County Auditor Abstracts.